

HARDING CARPETS

LIMITED

Forty-fifth Annual Report, October 31, 1972

The Annual and
General Meetings
of the Shareholders
will be held
on February 13, 1973
at 2 p.m. at the
Royal York Hotel,
Toronto, Ontario
A Special Meeting
of the holders of
Class A shares
will follow at 3 p.m.

FINANCIAL HIGHLIGHTS

	Year Ended October 31		
	<u>1972</u>	<u>1971</u>	<u>Change from 1971</u>
Sales	\$40,076,467	\$32,967,229	+22%
Income before taxes	4,706,003	2,538,827	+85%
Income taxes	2,195,000	1,240,000	+77%
Net income	2,511,003	1,298,827	+93%
Earnings:			
Per Share	1.51	.80	+89%
As a percentage of sales	6.3%	3.9%	+62%
As a percentage of capital employed at beginning of year.*	13.4%	7.4%	+81%
As a percentage of shareholders' equity at beginning of year.	20.7%	11.4%	+82%
Dividends paid to shareholders:			
Per share48	.48	
As a percentage of earnings	31.7%	59.8%	
Capital expenditures	1,923,165	1,624,011	+18%
Depreciation	1,253,161	1,053,261	+19%
Working capital	12,086,286	8,310,856	+45%
Ratio of current assets to current liabilities	2.5 to 1	1.7 to 1	
Long term debt	8,075,000	5,790,921	+39%
Shares outstanding:			
Common	535,424	532,424	+ 1%
Class A	1,144,050	1,094,850	+ 4%
Number of shareholders	3,024	2,958	+ 2%
Salaries, wages and employee benefits	\$ 9,102,162	\$ 8,276,725	+10%
Number of employees (average)	1,295	1,156	+12%

*Capital employed represents total assets less current liabilities.

REPORT TO THE SHAREHOLDERS



C. M. Harding

A. Davidson

The strong demand for home furnishings, including carpets, which started in mid 1971 continued unabated through 1972. It was in this favourable environment that the Company has recorded the most successful year in its history in terms of both sales and earnings. It is also the first full year of good business conditions when we have been able to take advantage of the substantial investments made in the past few years in manufacturing and distribution facilities.

There is little doubt that with consumer confidence in our economy the carpet industry can measure up to the long term growth of home furnishings predicted by economists. Based on the average annual rate of growth in the carpet industry since 1961, we could expect that the market in 1977 could be double that of the past year.

The consensus is that the buoyant business conditions will continue through most of 1973 and could result in a real growth of 6%. The unusually high rate of growth for home furnishings which is expected to be 11% in 1972 may not continue at such a rate in 1973 as the stimulus from the housing sector may be somewhat lower. It remains to be seen whether the prospect of an early federal election and possible future steps to curb inflation will affect business in the short term. We are inclined to feel that the strength of the economy will override the short term difficulties.

The report that follows contains details of plans for the continued growth of the Company. Our policy of ensuring that we have the necessary equipment and up-to-date plants to meet the growth opportunities will mean that capital expenditures will remain at a relatively high level. With the debenture financing arranged in 1972, we see no need for further public financing in the near future.

The year closed with a strong demand for our products and our mills operating at a very high level. With the optimistic prospects for 1973 we can say with confidence that the outlook for the Company is encouraging.

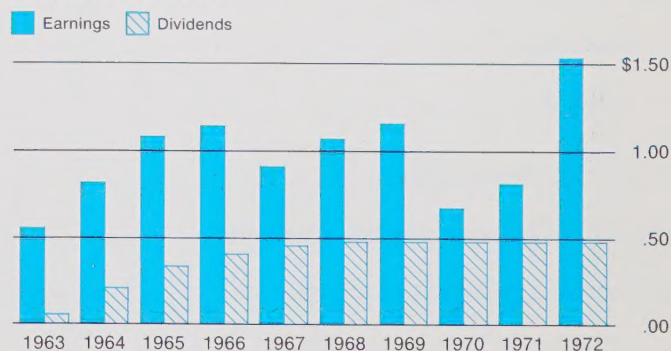
Income

The net income for the year increased 93% over last year to an all time high of \$2,511,003. The earnings per share reached \$1.51 compared to 80¢ in 1971.

The improvement in the ratio of earnings to sales is due to a number of factors. The increased volume resulted in greater utilization of both manufacturing and distribution facilities. The discontinuance of Wilton and Axminster weaving departments in 1971 eliminate less profitable sales volume. The reduction of inventories and the streamlining of our distribution system have helped reduce costs. In addition, the net income is higher by 5½% due to lower rates of income tax.

The Federal Budget, brought down last May, provided for concessions to manufacturing and processing companies in the form of lower taxes on income, effective January 1, 1973, and accelerated depreciation on new machinery and equipment. If these changes are approved by Parliament, there will be a further reduction in the rate of income tax paid by the Company next year and improvement in cash flow resulting from the accelerated depreciation.

EARNINGS AND
DIVIDENDS PER SHARE



Dividends

Dividends of 48¢ per share were paid during the year at the same rate as in 1971. A dividend of 12¢ per share has been declared payable January 2, 1973.

In conjunction with the Annual Meeting, General Meetings of Shareholders are being called to consider and, if thought advisable, adopt a Special Resolution and an Arrangement proposed by the Directors of the Company providing for the subdivision of the Common and Class A shares on a three for one basis and the reclassification of the share capital to enable the Company, under certain circumstances, to pay dividends that will not be subject to further income tax in the hands of Canadian Shareholders electing to convert their shares into the new classes. Full details will be forwarded with the notice of the meetings.

The Board of Directors has declared a dividend payable April 2, 1973 of 15¢ per share. If the Shareholders approve the proposal to subdivide the Common and Class A shares, this dividend would be 5¢ per share after subdivision.

Sales

For the fifth consecutive year, sales have reached a record level. At \$40,076,467, sales for the year were 22% over the previous year.

Sales in the second half were up 17% while the first half reflected a 27% increase over the same period last

year. Inasmuch as the current business recovery commenced in the third quarter last year, the lower increase in the second half was to be expected. Despite the high level of sales a year ago, the year finished very strongly with a 20% increase in the fourth quarter.

Export sales did not grow as expected during 1972 but we are optimistic about the future. Printed products particularly will assist us in developing a larger volume in foreign markets.

Products from our screen printing plant, installed in 1971, made a significant contribution to our growth in sales during the past year. Our "Design Dyed" products are becoming well established in both the residential and contract markets. With the rapid growth of printing we will be making full use of the printing capacity at an earlier date than had originally been expected. This will result in the return on the major investment in printing facilities being ahead of estimates.

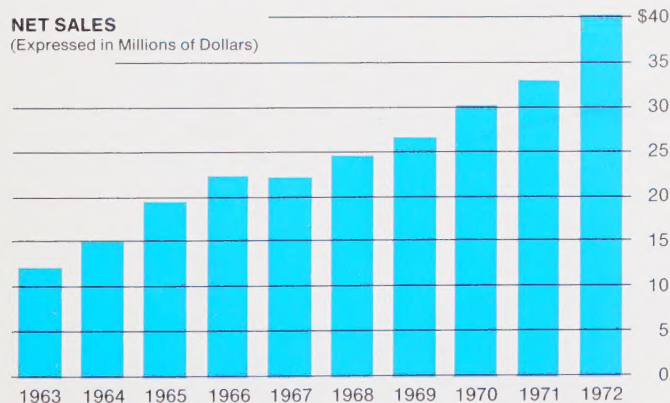
Keeping pace with market trends, shags were the dominant carpet style during the past year. A number of new products of this type were added to our line. Sales of plushes and hard-twist styles continued to represent significant segments of our sales.

The sales growth in 1972 was largely attributable to the high level of consumer spending and, to a lesser degree, the growth in the contract or commercial market.

Carpeting is very much a style item in colour, texture and type. Through the highly qualified personnel of our Product Development and Styling departments, along with the pilot plant facilities, we are in a position to cope with style revolutions which are an integral part of a style industry. In addition, the pilot plant is used for improving manufacturing processes and for improving the quality of the products we produce.

Distribution

During the year, effort has been directed toward further improving the effectiveness of our distribution centres. The distribution centres and regional sales organizations, formerly operated under subsidiary companies, have been transferred to the parent company for better co-ordination of operations.



During the year, billing for all distribution centres has been centralized on our head office computer. We are now developing computer applications to control production, improve forecasting, and to centrally control finished inventories at all locations.

With the addition early in 1972 of 40,000 square feet to our distribution centre in Toronto, this has now become our main central warehouse from which products are shipped to regional distribution centres. The consolidation of some inventories and changes in inventory policies have resulted in a higher rate of inventory turnover. These changes in our distribution activities have been designed to improve the service we provide for our customers and to obtain optimum return on our investment in inventories consistent with a high level of service.

The Carpet Market

In the calendar year 1971, the carpet market in Canada, exclusive of automotive carpet, increased by 21% in yardage. At the time of writing, we estimate that the 1972 calendar year will show an increase of between 22% and 25%. Although 1970 was a year of no-growth, the industry has maintained its average rate of increase since 1961 of approximately 15% per annum. This illustrates that carpet manufacturing is one of Canada's outstanding growth industries.

There is every indication that the rapid growth of our industry will continue during the next decade. Rising



An unusual application of printed carpeting, designed to provide comfort and pleasing atmosphere in a high traffic area is this installation of Harding's Designers Gallery Club Check at the Windsor Raceway.

levels of personal income, a greater rate of home building than in the 1960's, and increasing replacement demand and the growing contract market will stimulate growth.

Canadian Market* (estimate)

	Total Sq. Yds. (000's)	% of total supplied by Canadian Mills	Consumption per Household (square yards)			Canadian Per Capita Personal Disposable Income
			Canada	U.K.	U.S.A.	
1962	11,736	85.8	2.49	3.70	3.66	\$1,535
1963	11,999	87.4	2.47	4.37	4.08	1,608
1964	15,806	87.2	3.14	5.04	4.73	1,679
1965	18,872	87.0	3.74	5.17	5.41	1,822
1966	23,525	88.4	4.54	5.23	5.94	1,973
1967	25,355	88.7	4.76	5.60	6.37	2,097
1968	31,193	87.4	5.67	6.00	7.61	2,236
1969	37,906	88.1	6.65	5.90	8.59	2,370
1970	38,747	89.3	6.57	6.11	8.42	2,523
1971	45,799	89.2	7.70	6.60	8.87	2,737
% Increase 1962/71	290.2%	4.0%	209.2%	78.4%	142.3%	78.3%

*Exports and automotive carpet have been excluded. Adjustments from previous reports have been made in accordance with latest available information.

The contract market has been expanded from the traditional hotel, schools, offices and other commercial installations into the residential sector which consists of apartment house developments, mobile home producers, and tract home builders. The contract market in this broad sense is expected to grow at a faster rate than the domestic market for carpeting.

Price has played an important part in the acceptance of carpeting. During the past ten years the cost of all commodities in Canada has increased more than 40%, but the price of carpet has actually been dropping. From a price index of 100 in 1961, it was 97.9 last year for the total carpet and rug industry and 89.4 for tufted carpets.

In 1971 imports of carpets increased by 18% over the previous year and it continued to account for 11% of the broadloom market in Canada.

Financial Resources

Our working capital of \$12,086,286 at October 31, 1972 shows an increase of \$3,775,430 for the year. During the year, additional financing was provided by the private placement of \$3,200,000 8½% 20 year sinking fund debentures at par. At the same time, the balance of the Adjustment Assistance Board loan, amounting to \$574,225, and the balance remaining on the real estate mortgage of \$236,696 were repaid. The Statement of Source and Use of Funds is shown on page 10.

Inventories of \$10,605,542 have been reduced 7% in spite of the 22% increase in sales volume. This reflects a combination of management efforts to improve inventory turnover and the current high demand for the Company's products which has depleted our inventories to some extent.

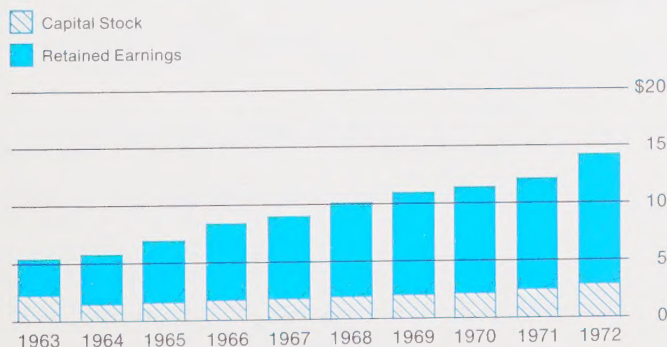
Capital Expenditures

During the year, capital expenditures reached \$1,923,165 which is equal to the average of the past two years. As indicated earlier in this report, there was a 40,000 square foot addition to the distribution centre in Toronto which brings this warehouse up to 120,000 square feet. At the Brantford plant, a new dryer was installed to handle the additional requirements of the printing operation and a major addition to our boiler house to handle the increased steam requirements of the piece dyeing and printing. At the same time, the existing boilers at Brantford were converted to gas as a further step in reducing air pollution. At the Collingwood plant, additional yarn producing and yarn processing equipment was installed.

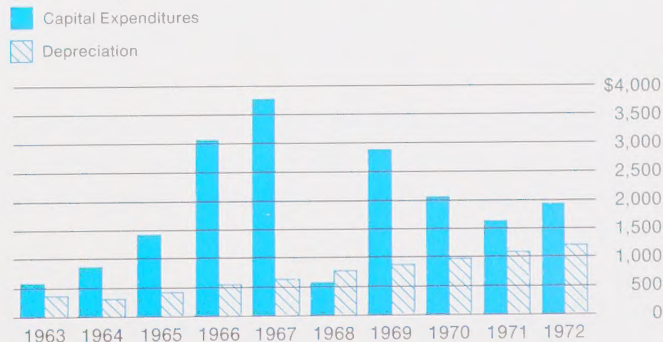
For 1973, capital expenditures of \$3,000,000 have been planned and a substantial part of this is already under way, being additions of 41,000 square feet to the Brantford plant and 40,000 square feet to the Collingwood plant. The Brantford addition will provide for the installation of a high capacity finishing line and additional tufting machines. The Collingwood addition will contain yarn producing equipment that will increase yarn production by two-thirds.

For many years, environmental control has been a concern of management. Since 1965, \$400,000 has been spent on various anti-pollution expenditures. Some of these are the conversion to gas-fired boilers, improvements of facilities for treating the effluent from dye houses, ways and means of treating air pollution and noise control. Additional expenditures will be incurred in 1973 in this regard and further studies are under way to cope with the noise in some processing operations.

SHAREHOLDERS' EQUITY
(Expressed in Millions of Dollars)



CAPITAL EXPENDITURES AND DEPRECIATION
(000's omitted)



Personnel

The total employment at year-end was 1,353 and there were 42 employees who have completed 25 years service or more.

In 1972, stock options were granted to 167 members of the staff.

In the past year, union contracts were negotiated with three unions representing the majority of the workers at Brantford and the Operating Engineers in Brantford and Guelph. In 1973, there are two union contracts to be negotiated covering 143 employees at the Guelph plant and 26 at Brantford.

Mr. E. C. Carter, Vice-President, retired on October 31, 1972 after 44 years of service with the Company. For the past 20 years Mr. Carter has served in a senior management capacity and his contribution over the years has played a significant part in the growth of the Company.

Mr. W. D. L. Sherren has been appointed Vice-President, Styling and Product Development, having served as Product Development Manager since 1959, and prior to that in the research and development department of a major textile fibre producer.

During the year, Mr. P. L. Guit was appointed Vice-President, Distribution Services, and Mr. F. W. Klein, Vice-President, Manufacturing. Mr. Guit was formerly Vice-President, Manufacturing, and Mr. Klein held senior management positions in the carpet industry in the United States before coming to Canada.

It is with much regret that we record the death in April 1972 of Mr. Hugh J. McLaughlin, Q.C., Vice-President and a founding director of the Company. Mr. McLaughlin's wise counsel, based on the background of his profession, his own personal experience and his long association with the Company, was highly valued by both management and the Company.

The Board is pleased to announce the appointment of Mr. Anthony F. Griffiths, President and Chief Executive Officer, Jonlab Investments Limited, to fill the vacancy.

With the consolidation of our senior management in Toronto, our Executive Offices are now located at 60 Yonge Street. All other head office operations are located at Brantford.

We take this opportunity to express appreciation to the management and staff for their dedicated service in the interests of the Company. The success of the year under review is in no small part due to the excellent



Another of Harding's printed Continental Collection, the "Colonial" adds warmth and beauty to this family room.

contribution of all employees. We are also indebted to our customers and suppliers for their continued support which is necessary for the success of the Company.

Annual Meeting

The Annual and General Meetings of the Shareholders of the Company will be held in Toronto on February 13, 1973. We look forward to meeting Shareholders at these meetings when further reports will be made on the progress of the Company.

Respectfully submitted,

Chas. Harding

Chairman of the Board

A. Davidson

December 19, 1972

President

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended October 31	
	<u>1972</u>	<u>1971</u>
Sales	\$40,076,467	\$32,967,229
Cost of Sales	<u>28,457,372</u>	<u>24,189,012</u>
Gross Profit From Operations	11,619,095	8,778,217
Deduct (Add) the following items:		
Selling, administrative and distribution expense	6,214,988	5,466,258
Debenture interest	556,330	406,394
Other interest	204,774	429,738
Government Grant—Collingwood	<u>(63,000)</u>	<u>(63,000)</u>
	<u>6,913,092</u>	<u>6,239,390</u>
Income Before Taxes	4,706,003	2,538,827
Taxes on Income	<u>2,195,000</u>	<u>1,240,000</u>
Net Income for the Year	2,511,003	1,298,827
Add: Retained Earnings at beginning of year	<u>9,822,949</u>	<u>9,300,410</u>
	12,333,952	10,599,237
Less: Dividends paid on common and Class A shares		
(1972—48¢, 1971—48¢)	<u>795,942</u>	<u>776,288</u>
Retained Earnings at end of year	<u>\$11,538,010</u>	<u>\$ 9,822,949</u>
Earnings per share before proposed subdivision	<u>\$1.51</u>	<u>\$.80</u>
Earnings per share after proposed subdivision	<u>\$.50</u>	<u>\$.27</u>

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Year Ended October 31	
	<u>1972</u>	<u>1971</u>
Current Assets	\$20,361,214	\$19,403,351
Current Liabilities	<u>8,274,928</u>	<u>11,092,495</u>
Working Capital	<u>\$12,086,286</u>	<u>\$ 8,310,856</u>
Source of Funds		
From Operations:		
Net income for the year	\$ 2,511,003	\$ 1,298,827
Charges or (credits) not involving current funds:		
Depreciation	1,253,161	1,053,261
Deferred income taxes (Note 5)	(155,000)	335,000
Government Grant	<u>(63,000)</u>	<u>(63,000)</u>
Total from Operations	3,546,164	2,624,088
Government Grant earned		27,798
Issue of capital stock (Note 6)	595,921	186,654
Issue of series "C" debentures	3,200,000	
Reduction in fixed assets including disposals	<u>68,373</u>	<u>154,161</u>
	<u>7,410,458</u>	<u>2,992,701</u>
Use of Funds		
Expenditures on fixed assets	1,923,165	1,624,011
Dividends paid	795,942	776,288
Reduction in long term debt	<u>915,921</u>	<u>521,079</u>
	<u>3,635,028</u>	<u>2,921,378</u>
Working Capital Increase	<u>\$ 3,775,430</u>	<u>\$ 71,323</u>

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 1972

Note 1—CONSOLIDATION

The consolidated financial statements include the accounts of Harding Carpets Limited and its subsidiaries, all of which are wholly owned.

Note 2—INVENTORIES

Valuation at October 31, 1972 at the lower of cost and market is consistent with previous years. Market price represents current replacement cost.

	1972	1971
Raw materials.....	\$ 1,122,232	\$ 961,066
Goods in process.....	3,125,423	3,249,952
Finished goods.....	6,357,887	7,185,285
	<u>\$10,605,542</u>	<u>\$11,396,303</u>

Note 3—FIXED ASSETS

	1972		1971	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 582,204	\$ —	\$ 582,204	\$ —
Buildings	8,735,154	1,976,780	7,999,406	1,722,521
Machinery and Equipment	13,358,539	7,471,848	12,335,354	6,568,805
	<u>\$22,675,897</u>	<u>\$9,448,628</u>	<u>\$20,916,964</u>	<u>\$8,291,326</u>

Depreciation charged on the books is based on straight line rates of 2½% for buildings and 9% for machinery and equipment. For the year ended October 31, 1972, the amount charged against income was \$1,253,161 (\$1,053,261 in 1971).

Note 4—LONG TERM DEBT

Secured by a floating charge in favour of the debenture holders.

Series A, 6% 1984.....	\$2,900,000
The sinking fund requirements call for payments of \$200,000 a year leaving a balance of \$900,000 due in 1984.	
Series B, 6½% 1987.....	1,975,000
The sinking fund requirements call for payments of \$105,000 per year, leaving a balance of \$610,000 due in 1987.	
Series C, 8½% 1992.....	3,200,000
The sinking fund requirements call for payments of \$125,000 per year from 1974 through 1986 and \$155,000 per year from 1987 through 1991, leaving a balance of \$800,000 due in 1992.	
	<u>\$8,075,000</u>

Note 5—DEFERRED INCOME TAXES

Deferred income taxes arise as a result of claiming for income tax purposes maximum capital cost allowances which have been in excess of depreciation recorded in the accounts. In 1972, depreciation exceeded capital cost allowance so deferred income taxes were reduced by \$155,000 compared with an increase of \$335,000 in 1971.

Note 6—EMPLOYEES' STOCK OPTIONS

Options for 3,000 Common and 49,200 Class A shares were exercised during the year ended October 31, 1972 for a cash consideration of \$595,921. Options for 2,000 Common and 34,150 Class A shares were granted during the year. Options outstanding October 31, 1972 were as follows:

Expiration Date of Options	Common		Class A	
	No. of Shares	Option Price per share	No. of shares	Option Price per share
November 7, 1972	—	—	1,100	\$14.175
December 3, 1973	—	—	2,600	8.8875
November 12, 1974	1,000	\$10.9125	7,550	10.35
	<u>1,000</u>		<u>11,250</u>	

Subsequent to October 31, 1972 options for 1,000 Common and 27,950 Class A shares were granted at \$21.60 per share. These options granted to 98 staff members expire November 15, 1975. Options outstanding at October 31, 1972, or options granted subsequent to October 31, 1972 do not vary significantly the diluted share earnings from reported share earnings.

Note 7—DIRECTORS' AND SENIOR OFFICERS' REMUNERATION

Direct remuneration to directors and senior officers totalled \$342,000 for 15 persons during the year ended October 31, 1972 (15 persons \$310,000 in 1971).

Note 8—PENSIONS

In 1948, the Company introduced its Employees' Pension Plan. This Plan was integrated with the Canada Pension Plan and the Quebec Pension Plan in 1966. Employees contribute 5% of their earnings to these Plans with the Company making up the balance to provide a minimum benefit of approximately 2% for each year of service. The past service liability is fully funded.

The Deferred Profit Sharing Plan was introduced in 1960. It is a trustee plan which is paid for completely by the Company and has to date been mainly invested in the shares of Harding Carpets Limited.

Since 1948, net pension and profit sharing contributions have been as follows:

	Company Net Contributions	Employees Net Contributions
Past service	\$ 319,461	\$ —
Employees' Pension Plan	1,365,641	1,592,045
Canada Pension Plan and Quebec Pension Plan	553,151	553,151
Deferred Profit Sharing Plan*	477,675	—
	<u>\$2,715,928</u>	<u>\$2,145,196</u>

*(The market value of the Deferred Profit Sharing Plan fund at October 31, 1972 was \$1,276,105).

The cost to the Company of the Pension Plans and the Deferred Profit Sharing Plan in 1972 was \$280,287 (1971—\$246,103).

Note 9—DEFERRED INCOME

This is the balance of Area Development grants in respect of capital expenditures in Collingwood to October 31, 1971, to the extent that they have not been taken into income. This balance will be taken into income in 1973 in accordance with the practice established in prior years.

Note 10—CAPITAL STOCK

On December 15, 1972, the Board of Directors adopted a Special Resolution and an Arrangement, subject to approval by Shareholders, providing for a subdivision of Common and Class A shares on a three for one basis and the reclassification of the share capital.

10 YEAR FINANCIAL SUMMARY

(000's omitted)

Operating Results

	<u>1972</u>	<u>1971</u>
SALES.....	\$40,076	\$32,967
Depreciation.....	1,253	1,053
Interest.....	761	836
Income before Taxes.....	4,706	2,539
Income taxes.....	2,195	1,240
NET INCOME..... ^[1]	\$ 2,511	\$ 1,299
Per Share..... ^[2]	1.51	.80
As a percentage of sales.....	6.3%	3.9%
As a percentage of capital employed at beginning of year.....	13.4%	7.4%
As a percentage of shareholders' equity at beginning of year...	20.7%	11.4%
DIVIDENDS PAID.....	\$ 796	\$ 776
Per preference share..... ^[3]	—	—
Per common and Class A share..... ^[2]	.48	.48
RETAINED EARNINGS FOR YEAR.....	\$ 1,715	\$ 523

Other Financial Data

Capital Expenditures.....	\$ 1,923	\$ 1,624
Working Capital.....	12,086	8,311
Ratio of current assets to current liabilities.....	2.5 to 1	1.7 to 1
Inventories.....	\$10,606	\$11,396
Fixed Assets (net).....	13,227	12,626
Long term debt.....	8,075	5,791
SHAREHOLDERS' EQUITY.....	\$14,427	\$12,116
Shareholders' Equity per share..... ^[2]	8.59	7.45

^[1] The net income for the years 1965 to 1972 have benefited under designated area legislation. For the years 1965 to 1967 taxation was reduced and from 1967 to 1972 income included grants for the Collingwood plant. Net income in 1969 is shown before extraordinary item less applicable income taxes representing national distribution start-up costs.

YEAR ENDED OCTOBER 31

<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>
\$30,035	\$26,842	\$24,958	\$22,040	\$22,089	\$19,350	\$15,001	\$12,058
975	889	765	609	531	426	335	375
888	514	624	434	294	270	203	46
2,013	3,651	3,238	1,776	2,894	2,886	2,635	1,849
960	1,814	1,545	366	1,133	1,209	1,340	895
\$ 1,053	\$ 1,837	\$ 1,693	\$ 1,410	\$ 1,761	\$ 1,677	\$ 1,295	\$ 954
.66	1.15	1.07	.90	1.12	1.08	.82	.56
3.5%	6.8%	6.8%	6.4%	8.0%	8.7%	8.6%	7.9%
6.3%	10.6%	10.6%	13.6%	16.8%	18.0%	22.5%	15.1%
9.6%	18.3%	18.8%	17.0%	25.8%	30.1%	23.8%	17.0%
\$770	\$765	\$755	\$723	\$626	\$505	\$334	\$183
—	—	—	—	—	—	5¾%	5¾%
.48	.48	.48	.46	.40	.32	.20	.05
\$ 283	\$ 710	\$ 938	\$ 687	\$ 1,298	\$ 1,172	\$ 961	\$ 771
\$ 2,025	\$ 2,887	\$ 566	\$ 3,777	\$ 3,045	\$ 1,402	\$ 856	\$ 572
8,240	8,972	10,213	8,563	6,270	7,187	6,964	3,488
1.7 to 1	1.9 to 1	3.5 to 1	2.7 to 1	2.1 to 1	3.2 to 1	4.4 to 1	2.1 to 1
\$11,274	\$11,324	\$8,359	\$7,427	\$6,725	\$5,015	\$4,472	\$3,732
12,209	11,212	9,235	9,559	6,451	3,947	2,987	2,425
6,312	6,824	7,095	7,600	4,100	4,300	4,500	740
\$11,407	\$10,961	\$10,034	\$ 8,992	\$ 8,281	\$ 6,816	\$ 5,564	\$ 5,451
7.11	6.87	6.35	5.71	5.27	4.38	3.59	2.95

² Adjusted to reflect subdivision of each common share on March 16, 1964, and each common and Class A share on February 11, 1967.

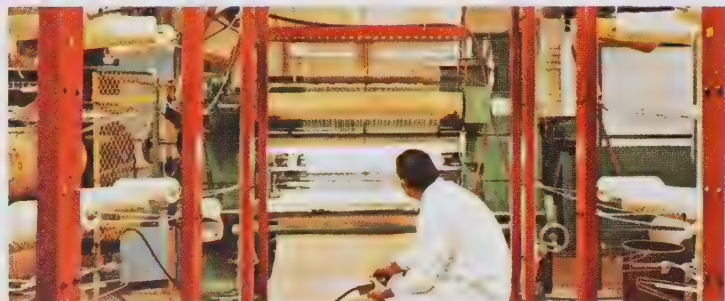
³ Preference shares redeemed February 17, 1964.

Carpet making is a complex operation, and the quality of the final product depends upon careful quality control in each step of the process. Harding's fully integrated manufacturing operation ensures just such control, from yarn spinning, to dyeing, tufting, printing, and finishing.

This quality control starts with a group of skilled development personnel who work to improve construction and develop new

products. Another team creates new designs, patterns and colour schemes. This high degree of expertise is carried through into Harding's integrated manufacturing process which results in the wide assortment of quality carpets which has made Harding a leader in the industry for over 40 years.

In simplified form this chart shows some of the stages in the manufacture of a Harding carpet.

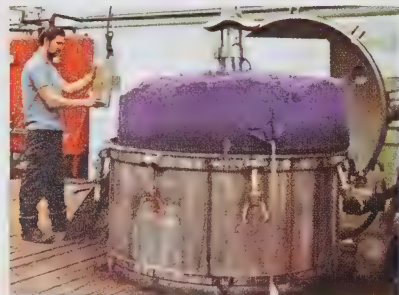


PRODUCT DEVELOPMENT

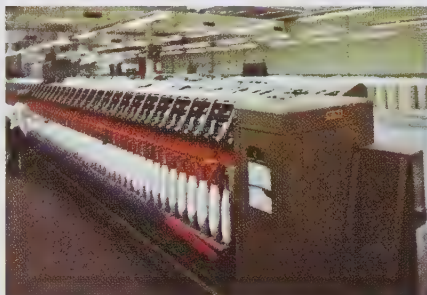


PRODUCT STYLING

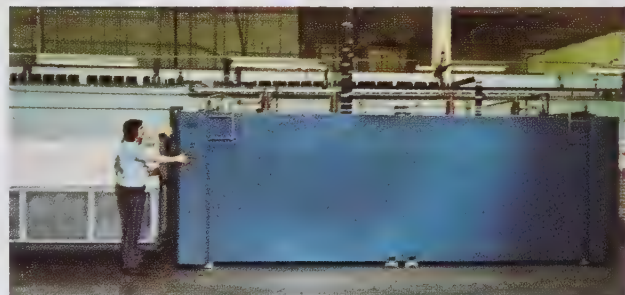
MANUFACTURING OPERATIONS



For some carpets the first step is dyeing the fibre.



Miles of natural and man-made fibres are spun by these machines some already dyed, some their natural colour . . .

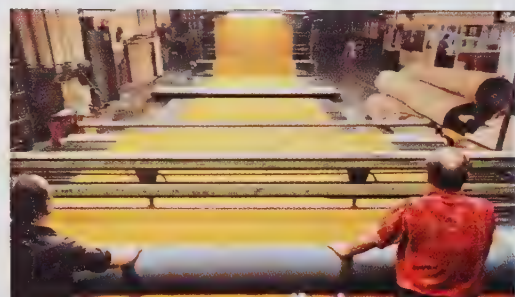


. . . and then heat set in this machine to ensure optimum durability and appearance



This machine dyes thousands of yards of carpet in a continuous process which ensures uniform colour throughout.

Most carpets today are made on these intricate machines which tuft dyed or plain yarn into various textures or level surfaces.



Before going out to Harding's distribution network across the country, the finishing line puts the last touches to the carpet and it undergoes a final quality control check.

This machine, the basis of Harding's Design Dyed process, faithfully reproduces an innumerable combination of colours and patterns on various level and textured surfaces.





DIRECTORS & OFFICERS

Directors

FRANCOIS E. CLEYN
Chairman and President,
Cleyn & Tinker, Ltd.,

ALBERT DAVIDSON, C.A.
President
Harding Carpets Limited

J. DOUGLAS GIBSON, O.B.E.
Corporate Director and
Financial Consultant

ANTHONY F. GRIFFITHS
President,
Jonlab Investments Limited

C. MALIM HARDING, O.B.E.
Chairman of the Board and
Chief Executive Officer,
Harding Carpets Limited

JOHN D. HARRISON, Q.C.
Partner,
Harrison, Elwood

FRANK D. LACE, D.S.O., O.B.E.
Chairman,
Matthews & Company Limited

J. DONALD MINGAY, D.S.O., O.B.E.
President and Chief Executive Officer
Consumers Glass Company Limited

WILLIAM H. YOUNG
President,
The Hamilton Group Limited

Officers

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Chairman and
Chief Executive Officer

ALBERT DAVIDSON
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Manufacturing

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Styling and Product Development

JOHN G. URQUHART
Vice-President,
Marketing

GERALD A. MURRAY
Director of
Administration

ALBERT F. KLINKHAMMER
Secretary-Treasurer

Offices

HEAD OFFICE

Morrell St., Brantford, Ontario

EXECUTIVE & MARKETING OFFICES

60 Yonge St., Toronto, Ontario

Manufacturing Facilities

Brantford—tufting, weaving, printing and dyeing.

Collingwood—yarn spinning and tufting.

Guelph—yarn spinning.

Harding Distribution Centres

Vancouver —4616 Canada Way, Burnaby, B.C.

Calgary —3030-9th Street S.E., Calgary, Alta.

Winnipeg —1555 Inkster Boulevard, Winnipeg, Man.

Toronto —35 Worcester Road, Rexdale, Ont.

Montreal —1475 Montee de Liesse, St. Laurent, P.Q.

Moncton —1220 St. George Boulevard, Moncton, N.B.

STOCK EXCHANGE LISTINGS

Toronto, Montreal and Vancouver

TRANSFER AGENT & REGISTRAR

Montreal Trust Company,
Toronto, Montreal, Regina,
Calgary and Vancouver

BANKERS

The Royal Bank of Canada
The Toronto-Dominion Bank

SHAREHOLDERS' AUDITORS

Price Waterhouse & Co.

The illustration opposite page 14 shows a typical use of a Harding "Design Dyed" carpet. This is a printed style which has both contract and domestic appeal.

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HARDING



LIMITED

CARPETS

Semi-Annual Report
April 30, 1972

TO THE SHAREHOLDERS:

Sales for the six months of \$19,116,617 are up 27% over the first half of last year. Sales in the second half should also show an increase over last year but at a lower rate than the first half. When making comparisons with 1971, it should be noted that business conditions and sales improved remarkably during the second half of the year.

Net income for the six months of \$1,147,438 compares with \$415,414 in the first half of last year to show an increase of 176%. Earnings per share of 69¢ compare with 26¢ in 1971.

The strong consumer demand this year and the excellent acceptance of new products have contributed to the higher sales. Income, both in manufacturing and dis-


tribution, has benefited from increased volume and lower interest costs.

The Statement of Source and Use of Funds reflects the financing provided by the private placement of \$3,200,000, 8 $\frac{5}{8}$ %, 20-year sinking fund debentures at par. At the same time, the Adjustment Assistance Board loan and the real estate mortgage on the Quebec distribution centre have been retired.

ON BEHALF OF THE BOARD



Chairman



President

June 9, 1972

Brantford, Ontario

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	3 Months ended April 30		6 Months ended April 30		
	1972	1971	1972	1971	Increase over 1971
SALES	\$10,091,409	\$7,863,713	\$19,116,617	\$15,101,866	27%
COST OF SALES	7,229,462	5,917,324	13,580,943	11,186,054	
GROSS PROFIT from Operations	2,861,947	1,946,389	5,535,674	3,915,812	41%
DEDUCT (ADD) the following items:					
Selling, administrative and distribution expense	1,579,313	1,342,494	3,120,096	2,693,589	
Debenture interest	90,000	98,000	180,000	196,000	
Other interest	55,415	126,576	140,640	249,309	
Government grant - Collingwood	(15,750)	(15,750)	(31,500)	(31,500)	
	1,708,978	1,551,320	3,409,236	3,107,398	
PROFIT before income taxes	1,152,969	395,069	2,126,438	808,414	163%
Taxes on income	534,000	199,000	979,000	393,000	
NET INCOME for period	\$ 618,969	\$ 196,069	\$ 1,147,438	\$ 415,414	176%
Earnings per common and Class A shares	37¢	12¢	69¢	26¢	165%

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Unaudited)

	6 months ended April 30	
	1972	1971
SOURCE OF FUNDS		
From Operations:		
Net income for period	\$1,147,438	\$ 415,414
Charges or (credits) not involving current funds		
Depreciation	553,221	517,512
Deferred Income Taxes	(33,600)	62,500
Government grant*	(31,500)	(31,500)
Total from operations	1,635,559	963,926
Issue of capital stock	454,087	133,987
Issue of Series C Debentures	3,200,000	—
	5,289,646	1,097,913
USE OF FUNDS		
Expenditures on fixed assets (net)	704,890	986,918
Dividends paid	394,506	386,028
Reduction in long term debt	915,920	408,784
	2,015,316	1,781,730
WORKING CAPITAL INCREASE (DECREASE)	\$3,274,330	\$ (683,817)

*The portion of the designated area grant for the Collingwood Plant which has been included in income for the period.

ÉTAT CONSOLIDÉ DE PROVENANCE ET D'AFFECTATION DES FONDSD

(non vérifié)

Pour le semestre clos
le 30 avril

1972	1971
PROVENANCE DES FONDSD	
Découlant de l'exploitation:	
Profit net de la période	
Frais ou (crédits) n'affectant pas le fonds de roulement —	
Amortissement	
Impôts sur le revenu reportés	
Subvention du gouvernement*	
Total en provenance de l'exploitation	
1,635,559	963,926
454,087	133,987
3,200,000	—
5,289,646	1,097,913
AFFECTATION DES FONDSD	
Dépenses en immobilisations (montant net)	
Dividendes versés	
Diminution de la dette à long terme	
2,015,316	1,781,730
\$3,274,330	\$ (683,817)

*Partie des subventions aux zones désignées applicable à l'usine de Collingwood et incluse dans les revenus de la période.

(əɪˈfɪə ʊn)

Pour le semestre clos le 30 avril		Pour le trimestre clos le 30 avril		Augmentation par rapport à 1971	
1971	1972	1971	1972	1971	1972
Ventes	\$10,091,409	\$7,863,713	\$19,116,617	\$15,101,866	27%
Coût des ventes	7,229,462	5,917,324	13,580,943	11,186,054	41%
Profit brut d'exploitation	2,861,947	1,946,389	5,535,674	3,915,812	
À déduire (à ajouter) :					
Frais de vente, de gestion et de distribution	1,579,313	1,342,494	3,120,096	2,693,589	
Intérêts sur déventures	90,000	98,000	180,000	196,000	
Intérêts divers	55,415	126,576	140,640	249,309	
Subvention gouvernementale — Collingwood	(15,750)	(15,750)	(31,500)	(31,500)	
Profit avant impôts sur le revenu	1,708,978	1,551,320	3,409,236	3,107,398	
Impôts sur le revenu	534,000	199,000	979,000	393,000	
Revenu net pour la période	\$ 618,969	\$ 196,069	\$ 1,147,438	\$ 415,414	176%
Bénéfice par action ordinaire et par action de la classe "A"	37¢	12¢	69¢	26¢	165%

AUX ACTIONNAIRES:

Les ventes du semestre se dégagent à \$19,116,617, soit une augmentation de 27% par rapport au premier semestre de l'exercice précédent. Cette tendance devrait se poursuivre au cours du second semestre, à un taux tout-efois légèrement inférieur.

Au moment de faire des comparaisons avec 1971, l'on doit se rappeler que la conjoncture générale des affaires ainsi que les ventes, ont connu une amélioration notable au cours de la seconde moitié de l'année;

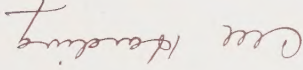
Le bénéfice net du premier semestre a atteint \$1,147,438 contre \$415,414 au cours de la même période de l'exercice précédent, soit une augmentation de 176%. Le bénéfice net par action se monte à 69¢ contre 26¢ en 1971.

La forte demande des produits de consommation enregistrée cette année, ainsi que l'accueil très favorable des nouveaux produits, ont contribué à cet accroissement de

notre chiffre d'affaires. L'augmentation de notre bénéfice, tant pour la fabrication que pour la distribution, est due à l'accroissement de nos ventes, ainsi qu'à la diminution des intérêts versés.

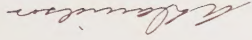
L'état de la provenance et de l'affectation des fonds reflète l'investissement privé de \$3,200,000 en débetures à 20 ans, à fonds d'amortissement à 85/8%, à leur valeur nominale. De plus, le prêt du Adjustment Assistance Board, ainsi que l'hypothèque sur le centre de distribution du Québec ont été remboursés.

Au nom du conseil d'administration,



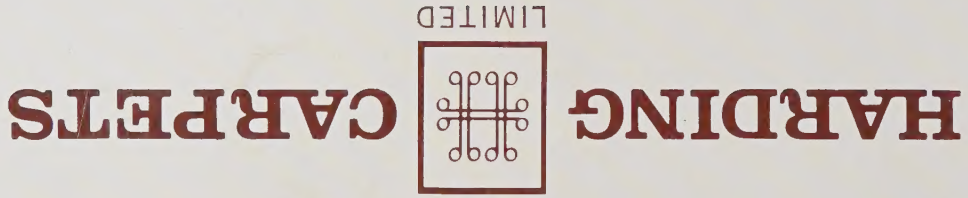
président du conseil

président



Le 9 juin 1972

Brantford, Ontario



Rapport semestriel
30 avril 1972